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THE PUBLIC DEBT OF PRUSSIA.

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THE kingdom of Prussia, as at present constituted, forms the most important part of the German Empire, of whose territory it embraces nearly two-thirds and, roughly speaking, three-fifths of the population.

The Prussian State Debt as it stands to-day has been incurred almost exclusively for the State railways, either in their construction or in the purchase of private lines; but the net proceeds of these railways not only entirely cover the exigencies of the debt, both as to interest and sinking fund, but yield a very considerable surplus, which serves instead of taxation to cover other State expenses. Thus Prussia has, strictly speaking, no State Debt, but mainly a State Railway Debt which is covered by the earnings of the railways themselves. This eminently satisfactory state of affairs dates from the end of the seventies, when Prussia began to extend her then inconsiderable State Railway System by the purchase of all the important private lines.

The earlier history of the Prussian State Debt runs parallel with that of the political development of the country.

When, at the end of the Napoleonic wars, in 1820 affairs came to be regulated the Prussian State Debt was found to have increased fourfold. The King thereupon declared the State Debt account finally closed; should further loans become necessary they would only be raised, he promised, with the consent and co-operation of the future representative Parliament. As the institution of this Parliament was not effected either under Frederick William III. or Frederick William IV., fresh loans could not be raised during their reigns, nor was it necessary under the then prevailing financial and political circumstances. But, between

1830 and 1840, the question of railway construction came up, and in Bavaria, Saxony, Hanover, Würtemberg, Baden, etc., the building of railways soon began to be carried out at the expense of the State. Prussia could not do this without raising loans, and therein lies the chief reason why so many of the Prussian lines were originally in private hands. The sum total of the Debt reduced itself during this period by the action of sinking funds, and the interest was cut down by conversions and the lowering of the rate from 5 to $3\frac{1}{2}$ per cent. The chief part of the Debt consisted in the 3 per cent. State obligations of 1842, which had a very heavy sinking fund that has operated almost till the present day. Issued originally for 501,000,000 marks, these obligations have remained a special category of the State Debt, and were not included in the later consolidations. In 1899, there was still a residue of 6,250,000 marks, which was paid off on January 1st, 1900. Thus, this Debt, the largest item of the old War Debt, has been wiped out.

The course of political events from 1848 onwards, combined with the unfavorable financial situation and the construction of the State Railways, necessitated an increase of the State Debt by loans, which could only be obtained at a much higher rate of interest. The events of 1864 and 1866 led still further in this direction. On the annexation of Schleswig-Holstein, part of the Danish National Debt (65,250,000 marks) had to be taken over by Prussia, as were the State Debts of the other territories annexed by Prussia at that period.

By far the greater part of these Debts, however, had been incurred for the construction of the respective State Railways; consequently, as these railways now came into Prussia's possession and were in many cases yielding excellent returns, this addition to her State Debt in no wise increased her financial burden.

Under the old régime in Prussia, the Debt was divided into innumerable separate categories, each fresh loan since 1848 forming a distinct one by itself (the majority at $4\frac{1}{2}$, some at 4, some at 5 per cent.) and subject to different conditions as to their repayment. Besides this, there were remnants of old Provincial Debts, chiefly from the Napoleonic wars, which had been taken over by the State, each again under a separate heading, not to mention shares and debentures of the various private railways acquired by the Government and now treated as State Debts. This naturally

led to a most confusing diversity of categories, besides which most of the loans had, by contract and statutory regulation, heavy sinking funds. Thus, about 1870, the "General State Debt" of Prussia and its additions since 1866 had, on its capital sum (minus the floating debt) of 1,046,520,000 marks, a steadily increasing yearly sinking fund of 20,760,000 marks. To this were now added the Debts of the new Provinces, which were subdivided into numerous groups, each subservient to the regulations of its own particular State and having different rates of interest and sinking funds; for, up till then, all German Government Debts, more especially those incurred for the new railways, were invariably charged with a definite sinking fund.

The desire to bring all these innumerable debts under one heading and the financial advisability of reducing the heavy sinking fund which the constant increase of the Debt by fresh loans rendered purposeless, led in 1869 to the adoption of Camphausen's scheme of conversion into the "Consolidated Rentes Debt." The Government offered the holders to convert the Bonds of a number of older loans with sinking funds (seventeen in all, with a yet undischarged capital of 670,200,000 marks) into new obligations of a uniform Consolidated Loan, without sinking fund, at 4½ per cent., granting at the same time small premiums on conversion. The new Debt was not redeemable by the Government before 1885. The measure was on the whole successful, and though its complete accomplishment was somewhat retarded by the war of 1870, it was carried through afterwards all the more easily owing to the rapid improvement in State credit and the rise of the rate of interest, and to the fact that the older loans awaiting conversion were threatened with notice of re-payment or reduction of interest through the French War Indemnity now at the disposal of the Government, whereas the new Consolidated Loans could neither be redeemed nor the rate reduced before 1885. Down to August, 1870, old loans to the amount of 338,280,000 marks had been converted, and later on some 105,000,000 more—443,280,000 marks in all. By a new enactment on December 20th, 1871, however, the right of conversion was to terminate on January 15th, 1872, this being more advantageous to the Government.

The victorious course of the war and the founding of the Empire had brought Prussia an immense increase in funds. On the settlement of accounts between Prussia and the Empire, the former re-

ceived, among other sums, 90,000,000 marks for the transfer of her State Reserve; 72,000,000 marks in "*Reichscassenscheine*" for the redemption of the old Prussian paper money, which only amounted to 60,390,000 marks; and an indemnity of 29,720,000 marks for the transfer of the Bank of Prussia to the Empire and its re-creation as the Imperial Bank of Germany. Besides this, Prussia, as a member of the North German Confederation, received various sums for her war costs and for her private State expenses (361,910,000 marks) out of the French War Indemnity. Thus, Prussia was in a position to spend largely without raising fresh loans even for the railways, and to re-pay a portion of her out-standing debts. In this manner, the State Debt was reduced after the war, while the improved State credit, the rise in the rate of exchange, and the fall in the rate of interest facilitated fresh conversions, a reduction of interest and the raising of new loans at lower rates.

The minimum point of the Debt—921,000,000 marks including 30,000,000 in Treasury Bonds, but exclusive of the capital sum of 1,320,000 marks for the payment of special annuities—was touched at the end of 1875. After that, it began to rise again, but chiefly for productive purposes, namely the State Railways—the purchase of the most important lines from the great companies. These were bought up in rapid succession between 1879 and 1884, the purchases continuing as called for up to the present day. At the same time, the Railway System was extended and thoroughly equipped at enormous expenditure.

Besides the loans for this purpose, smaller additions to the State Debt for other necessary improvements, or for covering a deficit here and there in the Budget, were inevitable. The present high figure of the Prussian State Debt is largely the result of former conditions, but is financially completely justified by the excellent returns yielded by the railways for which the debts were incurred.

The purchase of the great private lines was effected at a time when railway receipts were at a decidedly low ebb and the dividends on shares much reduced, therefore under relatively favorable conditions for the Government. The general, though not universal, method adopted was to exchange the shares at an agreed amount for obligations of the 4 per cent. (some, later on, of the $3\frac{1}{2}$ per cent.) Consolidated Debt. all liabilities and debentures

(mostly at 5, $4\frac{1}{2}$ and 4 per cent.) of the companies being taken over by the Government under the already existing conditions as to interest, notice of withdrawal and re-payment. In time, however, these Debentures, in so far as the agreements permitted, were converted into State Loans. Neither the old nor the new Railway Debts come under any special heading in the Prussian State Debt, but as the expenses for the State Railways were for the most part defrayed by the issue of consols—first at 4, then at $3\frac{1}{2}$ and 3 per cent.—the total Consolidated Debt was naturally very much increased.

The rise in quotations during the eighties and nineties made conversions and a reduction of interest feasible, to the Prussian as to the Imperial Government. A beginning was made in 1885, when, without the slightest hitch, the interest on the old Consolidated Debt of 1869, which through further issue had risen to 545,750,000 marks, was reduced from $4\frac{1}{2}$ to 4 per cent. as soon as the term arrived at which the Government was entitled to give notice of re-payment.

In the same year, the interest on the Railway Debentures—mostly at 5 and $4\frac{1}{2}$ per cent.—was reduced to 4 per cent., to the amount of one milliard marks without, for the moment, converting the debentures into consols. This conversion took place in 1889 and 1890, the interest being reduced at the same time to $3\frac{1}{2}$ per cent.; in 1897 there came a further reduction—from September 1st, 1897—of the old Consolidated 4 per cent. Debt and also of the newly issued 4 per cent. Consolidated Debt (chiefly raised for the purchase of the private railways) to $3\frac{1}{2}$ per cent., to the extent of 3,589,800,000 marks. By reason of the then prevailing state of the money-market and the level of quotations, this operation was easily accomplished, and the Government relieved of close upon 18,000,000 marks in charges for interest. The Government has guaranteed, however, not to give notice of re-payment or further reduce the $3\frac{1}{2}$ per cent. interest on this Consolidated Debt before April 1st, 1905. But since 1898 and 1899, the state of the money-market and the quotations have not been so satisfactory.

The intimate connection between the Prussian State Debt and the extension of the State Railway System inevitably called for special legislative regulations. It became obvious that the Debt, which was now practically a Railway Debt, must be reduced and

the railways converted by degrees into a free asset, like the domains and forests, unburdened by a Debt, so that greater freedom might be gained in the tariff policy of the railways. By the law of March 27th, 1882, the capital sum of the State Debt up to April 1st, 1880, was fixed at 1,498,858,100 marks, and the whole of it considered as originating in the State Railways, which to all intents and purposes was the case. Under the denomination of the "State Railways Capital Debt" this sum was now charged to the State Railways and the interest fixed at 63,914,324 marks. It was settled at the same time—always supposing no fresh legislative measures should be passed meanwhile—that any new Debts arising out of the Railway Credits or Railway Debentures taken over by the Government, should, after April 1st, 1880, be added to the Railway Capital Debt, but that the legal charge for sinking fund should be deducted from it. Any surplus in hand at the end of the year was to be applied after April 1st, 1881, first to the interest on the Railway Debt, then, if need be, to covering any deficit in the Government's home accounts, and finally to re-payment of the Railway Debt itself. These amounts have been regularly written off ever since, the State Railways standing in consequence at a much lower valuation on the Government books. But an actual amortization of the Debt has occurred only to a much smaller degree. This was the fault of the Law of 1880. The large surpluses of the State Railways have gone, for the most part, to cover various Government expenses for which otherwise loans would have had to be raised.

The great financial advantage of nationalizing the railways was, however, that in the surplus of these railways Prussia obtained the wherewithal to meet very large expenses without having recourse to increased taxation. This circumstance goes far to explain the low rate of taxation in Prussia and the German Empire, in spite of the great increase in their respective expenditure. Thus—a point to be noted by social politicians—in Germany the State, and not private shareholders, draws the large revenues accruing from the railways.

The three-fourths of one per cent. amortization or deduction from the Railway Debt, in accordance with the law of 1882, amounted in the seventeen years between 1882 and 1899 to 687,600,000 marks. The nationalization of the railways had, in spite of the saving effected by the subsequent reduction in the rate of

interest, swelled the Prussian State Debt to such an extent that this merely budgetary amortization, by writing off the amounts from the Railway Debt capital, was very properly deemed entirely inadequate. The interest-bearing State Debt had risen from 921 millions in 1875-6, to 1,395 millions in 1880-81, 2,640 in 1883-4, 4,457 in 1889-90, up to which time the major portion of the debentures of the nationalized companies still stood on the accounts of the Railway Administration. After the conversion of these debentures into consols, and the transfer of nearly all not yet converted debentures to the State Debt Administration (April 1st, 1891) the Debt rose, 1891-92, to 5,835,000,000 marks with 18,460,000 marks annual sinking fund, and again, 1897-98, to 6,498,000,000 marks. An actual amortization of the capital only occurred in the case of the few loans which were redeemable and not yet converted into consols; besides this the amortization of the Railway Debentures was carried out as per agreement.

But this did not suffice to bring about a really effectual diminution in the capital of the debt. To this end a law was passed (March 8th, 1897) making amortization compulsory for the Budget. It was decided that for the year April 1st, 1897-98, at least one-half per cent. and for the following years at least three-fifths per cent. of the State Debt capital should be cleared off, a deduction of the amount from the newly-issued loans to be considered equal to amortization. To those half and three-fifths per cent. sinking funds are reckoned the sums already paid off systematically, or in accordance with legislative measures. Moreover, any surplus in the Government Budget was no longer to be accounted as revenue for the coming year, but to be applied to further amortization or as deductions from issued loans. This plan has been adhered to ever since. Nevertheless, seeing that the Prussian State Debt partakes so largely of the character of a Railway Debt, it would seem in every way desirable to increase the amount of these amortizations, the great surpluses from the railways providing ample means.

The sum required for interest does not come to nearly one-half of the annual surplus from the State Railways—half a milliard marks; to which may be added another surplus of about 74,000,000 marks from the State Domains, Forests and Mines which is more than sufficient to cover the interest on Prussia's share in the German National Debt. The total sinking fund for

1900 amounts to 39,550,000 marks which is also easily covered by the railway surplus. It follows, therefore, that Prussia need not apply one penny of her taxes to her State Debt—a wonderfully gratifying piece of “State socialism.”

This being the favorable financial position of the German Empire, Prussia and the other German States, there would be no difficulty in providing for a much greater outlay on the Army and Navy and yet leaving enough to cover the most exorbitant demands of the Civil Administration without having recourse to over-burdening taxation.

The methods employed in the administration of the Prussian State Debt are practically identical with those of the Empire, and a “Book of the Debt” was instituted as far back as 1883. The management is in the hands of a special office, the “Central Administration of the State Debt,” and the Parliamentary control is exercised by a State Debt Commission, composed in part of members of both Houses of the Diet. The administrative expenses in 1900 were 1,010,032 marks, to which the Empire contributes 126,800 marks for the administration of the Imperial Debt; the fees in connection with the entries into the State Debt Book come to 47,300 marks.

In this category of the State Debt must be included annuities, amounting in all to 1,443,650 marks a year in connection with charges on real estate. With the addition of this sum, the total annual charges of the Prussian State Debt amount to 272,751,506 marks.

This sum, and consequently that of the State Debt itself, is, however, somewhat increased by the inclusion of certain liabilities which belong neither to the Budget of the State Debt nor to that of the Central Administration. Thus the Budget of the State Railways is debited with a sum of 286,078 marks in interest, and 241,922 marks sinking fund on a 4½ per cent. loan taken over by Prussia with the acquisition of the Brunswick Railway, as also (in connection with this Railway) with an annuity of 2,625,000 marks to the Duchy running till 1932. With these sums and further smaller items, another 3,150,000 marks is added to the annual charges of the State Debt and a corresponding increase in the capital sum.

Again, liabilities occur in various other departments of the Administration which may, broadly speaking, be reckoned in

the State Debt. In the Budget of the Ministry of Finance, for instance, there are various time and life annuities (2,418,000 marks in 1900) mostly as indemnities to certain Princes and representative peers; then, in the Domains and Forests Department, there are various Redemption Funds amounting to about 1,500,000 marks and smaller items in certain other departments. Therefore, reckoning all these liabilities at 150 to 160 million marks, they raise the capital sum of the State Debt to about 6,750,000,000 marks, and its annual charges to about 276,250,000 marks. Not that this affects the general aspect of the Debt, similar liabilities outside the actual National Debt occurring in other countries likewise.

To sum up then: Prussia's State Debt, including her share in the Imperial Debt, amounted for the year 1900 to about 8,200,000,000 marks, entailing an outlay of about 321,000,000 marks (not reckoning the sinking fund of the Imperial Debt). That is to say, it represents about 244 marks of capital and 9.5 marks of annual charges per head of the population, against 314 marks and 12.5 marks in Great Britain, and 629 marks and 21.2 marks in France. But, in these latter countries, both the interest and the re-payment of the Debt have to come almost entirely out of the pockets of the people; whereas in Prussia, as in the whole of Germany, this is entirely achieved by the surplus from the State Railways and other Government property—a surplus so large that it suffices besides to cover nearly half the expenditure for the Army and Navy, so that only the other half and the charges of the Civil Administration have to be provided for out of the taxes.

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